

THE WATER SYSTEM

The Water Services Department's activities consist of obtaining, purifying and delivering potable water for domestic, commercial and industrial use and for fire protection within the City and surrounding areas.

Primary System

The primary System includes a 240 million gallon per day treatment plant, four major pump stations, 14 repump stations, numerous water storage facilities, and about 2,700 miles of water mains. Treated water service is provided to approximately 153,000 retail customers inside and outside the City and 32 active wholesale customers. There are also connections with the transmission systems of six other regional water suppliers that can be activated in case of an emergency.

The City obtains its raw water for the primary System from a combination of surface and ground water sources. Surface water comes from the Missouri River and accounts for approximately 80% of the raw water. Ground water comes from a well field in the Missouri River aquifer and accounts for the remaining 20% of raw water. Water treatment is a four-step process that consists of clarification, softening, stabilization and filtration. The treated water produced by the Water Services Department meets current federal and state requirements for drinking water.

Water is pumped into the transmission system from storage reservoirs located at the primary water treatment plant, which is located on the north side of the Missouri River. The primary water transmission system is comprised of two essentially separate systems, one serving customers located north of the Missouri River and the other serving customers located south of the Missouri River. Water is delivered to the southern water transmission system through two tunnels under the Missouri River. The transmission systems include booster pumping stations and both elevated and ground level water storage reservoirs. The existing treated water storage capacity is now 128.2 million gallons. The average daily flow during Fiscal Year 2009 was 95 million gallons per day with a peak day demand of 160 million gallons, which is about 75% of the primary treatment plant's design capacity. The Corps of Engineers plans to maintain releases from upstream reservoirs in the near future; thus, the City anticipates that the elevation of the Missouri River water surface will remain at lower than normal levels. In addition, the river bed is degrading due to flood scour and changes in sediment transport patterns, which is also contributing to the lowering of water levels in the Missouri River.

With the lowering of the Missouri River water surface, it is possible that the existing Intake Structure would not be able to take raw water out of the river this winter and pump it to the City's Water Treatment Plant. To avoid this possibility, the City has made additions and modifications to the equipment at the Intake Structure.

The City has continued to file comments on the Corps' plan and is participating in the Missouri River Recovery Implementation Committee (MRRIC) discussions for Missouri River management. The City is a member of the MO-ARK Association, a voluntary non-profit corporation which promotes flood control, navigation, irrigation, recreation, fish and wildlife, the environment, conservation and the beneficial use of land and water resources within the Missouri River Basin and the portion of the Arkansas River Basin that runs through Kansas and Missouri. MO-ARK is involved in litigation disputing the Corps' plan.

Atherton System

The Atherton System provides wholesale service to two wholesale water districts. The Atherton System consists of two wells located near the Missouri River and a small treatment plant with a rated capacity of approximately 0.6 million gallons per day. The treatment plant consists of an aerator, a solids contact unit, filters, pumps, chemical feeders, and a clearwell. The distribution system includes an underground booster pumping station and approximately 7 miles of 8-inch and 10-inch water mains.

Additional Information

The following table shows revenues generated by retail and wholesale customers of the System for the past five years.

Water Revenues by Retail and Wholesale Customers (in 1,000s)					
Fiscal Year Ended April 30,					
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Retail Customers	\$ 53,982	\$ 55,593	\$ 61,267	\$ 65,126	\$ 67,165
Wholesale Customers	<u>7,771</u>	<u>11,391</u>	<u>13,122</u>	<u>13,125</u>	<u>12,205</u>
Total	<u>\$ 61,753</u>	<u>\$ 66,984</u>	<u>\$ 74,389</u>	<u>\$ 78,251</u>	<u>\$ 79,369</u>

The following table shows the number of System customers for the past five years.

Number of System Customers					
Fiscal Year Ended April 30,					
	<u>2005*</u>	<u>2006</u>	<u>2007**</u>	<u>2008</u>	<u>2009</u>
Retail Customers	136,357	136,735	136,860	137,650	141,401
Commercial/Industrial	18,267	18,277	15,170	15,354	15,239
Wholesale Customers	<u>55</u>	<u>55</u>	<u>32</u>	<u>32</u>	<u>33</u>
Total	<u>154,679</u>	<u>155,067</u>	<u>152,062</u>	<u>153,036</u>	<u>156,673</u>

Note: Numbers exclude those used to provide City services.

* Due to system conversions and related data clean-up, fiscal year 2005 numbers were calculated based on previous projections. Previous fiscal year numbers were based on the number of bills issued and were not as accurate as the updated system

** Fiscal year 2007 reflects a count of accounts in order to more closely correlate to the number of System customers, as compared to fiscal years 2005 and 2006 which were based on service connections.

Management Initiatives

The Water Services Department continues its efforts to improve operating efficiencies, customer service, and service reliability. In 2007, the Department began installation work associated with a new Automatic Meter Reading (“AMR”) system. Installation of the AMR system is scheduled over three years. Improved accuracy, operating efficiencies, and enhanced revenue recovery will result from this undertaking. At present, approximately 134,000 of the approximate 160,000 meters in the water system have already been affixed with AMR.

The Department will require significant capital additions to the water system to meet the infrastructure renewal and replacement needs. That consideration is on of several that caused the Department to begin developing an Asset Management Program (the “**Program**”). Beginning with the sewer utility, the Program will establish levels of service, best management practices, and an implementation plan that is aimed at minimizing the life cycle costs of the Department’s assets. The Program will ultimately be expanded to include the water utility.

Security of the System

As a result of the terrorist attacks of September 11, 2001, the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (commonly known as the “**Bioterrorism Act**”), was signed into law on June 12, 2002. This law requires all community water systems serving more than 3,300 people to (1) conduct a vulnerability assessment; (2) certify to the United States Environmental Protection Agency (“**USEPA**”) that the vulnerability assessment was completed by a date specified in the law; (3)

submit a paper copy of the assessment to USEPA; (4) prepare or revise their emergency response plan based on the results of the vulnerability assessment; and (5) certify to USEPA that the emergency response plan has been developed or revised by a certain date. The Water Services Department has focused much attention on securing the Water System. Under the requirements of the Bioterrorism Act, the City has conducted appropriate security activities and provided all required certifications to appropriate federal authorities, by the prescribed deadlines, concerning assessments and response planning. In addition, the City carries property insurance for Water Services Department property that includes the terrorism coverage referred to in the Terrorism Risk Insurance Act of 2002.

Capital Improvement Program

In January 2007, the City's Water Services Department identified a Capital Improvement Program through fiscal year 2012 which is intended to provide facilities to meet existing and anticipated federal and state water quality standards and to maintain a reliable water transmission system that can respond to changing patterns of water use throughout the City's service area. The Capital Improvement Program currently identifies an estimated \$155 million of specific major capital improvements, which are expected to be financed primarily through a combination of annual System revenues, contributions from local sources, available fund balances and bond proceeds.

It is projected then that additional water revenue bond issues totaling \$154 million will be sold during the fiscal years ended 2011 through 2013. A question to increase the water revenue bond authorization by \$250 million was presented to the voters on August 2, 2005. The voters approved the additional bond authorization by nearly a three to one margin. Therefore, with the new 2005 authorization, adequate authorization is available for the remaining \$154 million of revenue bonds projected through 2013.

Regulatory Requirements

In General. The City's water supply operations must comply with the federal Safe Drinking Water Act, 42 USC Sec. 300f *et seq.*, and its amendments, including the Public Health Security and Bioterrorism Preparedness and Response Act of 2002. The City is also subject to the federal regulations (40 CFR Part 141 *et seq.*) promulgated under the Safe Drinking Water Act and its amendments. These statutory and regulatory requirements are administered by the USEPA through the Missouri Department of Natural Resources ("MDNR"). Regulations of these agencies pertain to the treatment and distribution of the City's drinking water.

In addition to federal requirements, the City must comply with State of Missouri requirements. The primary State laws concerned with water supply operations are found in the Missouri Safe Drinking Water Act (Sections 640.100 - 640.140, RSMo.) The State's Public Drinking Water Program is contained in state regulations at 10 CSR 60 and is also adhered to by the City.

As a public water system, the City's water treatment facility operates under a permit from MDNR and must comply with rigorous drinking water standards. The City is in full compliance with its permit requirements.

The City has never been cited for a violation of federal or state drinking water laws and regulations. The City is in compliance with the Public Health Security and Bioterrorism Preparedness and Response Act of 2002.

Evolving Regulations. The EPA is poised to promulgate two rules under its Microbial and Disinfection Byproduct Rules: the Long Term 2 Enhanced Surface Water Treatment Rule and the Stage 2 Disinfectants and Disinfection Byproducts Rule. The City does not anticipate any operational changes will be needed to comply with these rules.

Largest Users of the System

The following table sets forth the ten largest users of the System and the percentage of total consumption applicable to each for the fiscal year ended April 30, 2009:

<u>User</u>	<u>Type of Business</u>	<u>Annual Consumption (100 cubic feet)</u>	<u>Percentage of Total Consumption</u>
City of Lee's Summit	Wholesale Water	1,392,116	3.97%
Jackson County Public Water Supply Dist. No. 1	Wholesale Water	1,163,850	3.32
City of Belton	Wholesale Water	937,977	2.68
City of Raymore	Wholesale Water	676,215	1.93
Raytown Water Company	Wholesale Water	600,375	1.71
City of Blue Springs	Wholesale Water	547,796	1.56
Dogwood Energy Facility	Utility	408,293	1.17
Trigen –Kansas City	Wholesale Water	405,662	1.16
City of Platte City	Wholesale Water	361,084	1.03
Public Water Dist. No. 2 of Cass County	Wholesale Water	309,804	.88

Billing Procedures and Collections

Water rates are reviewed annually by the City to determine if rate adjustments are required. Water rates are developed based on total costs of service and customer service requirements. The rate schedule for customers outside the City is designed to reimburse the City for operation and maintenance expense, depreciation expense, and to provide a reasonable rate of return on the plant investment serving these customers. Water rates were most recently increased on May 1, 2009 for Fiscal Year 2010.

Charges for water services are combined on a single bill with applicable wastewater and stormwater charges. A late payment service charge of 5% of the unpaid delinquent balance is applied to all metered water service, sanitary sewer service and stormwater fee bills remaining unpaid after the delinquent date. Water and wastewater services are subject to termination without further notice if a bill remains unpaid 20 days after the delinquent date. For one and two family dwellings, unpaid charges become a lien on the property if the account is six or more months delinquent, or the total amount of the delinquency is \$500 or more. For all other property classifications, unpaid charges become a lien on the property if the account is three or more months delinquent, or the total amount of the delinquency is \$1,000 or more. Water and wastewater service can be restored upon payment of the unpaid bills and a service restoration charge.

Rate Structure

On March 26, 2009, the City approved the following water rates, which implemented a 10% water revenue rate increase, which became effective as of May 1, 2009.

Meter Size (Inches)	<u>Service Charge</u>		<u>Seasonal Off-Peak Commodity Charge</u>		<u>Fire Protection Charge</u>	
	<u>Inside City</u>	<u>Outside City</u>	<u>Inside City</u>	<u>Outside City</u>	<u>Connection</u>	<u>Rate per</u>
	<u>Billed</u>	<u>Billed</u>	<u>Billed</u>	<u>Billed</u>	<u>Size (Inches)</u>	<u>Annum</u>
	<u>Monthly</u>	<u>Bi-Monthly</u>	<u>Monthly</u>	<u>Bi-Monthly</u>		
5/8	\$10.35	\$15.35	\$11.50	\$16.20	4 or less	\$76.00
3/4	\$10.95	\$16.90	\$12.10	\$18.30	6	\$185.00
1	\$13.80	\$21.85	\$14.40	\$22.55	8	\$350.00
1-1/2	\$20.70	\$36.60	\$21.30	\$37.30	10	\$572.00
2	\$27.00	\$50.00	\$27.60	\$50.70	12	\$857.00
3	\$57.50	\$111.00	\$60.50	\$116.50	16	\$1618.00
4	\$72.50	\$140.50	\$76.00	\$147.00		
6	\$106.50	\$207.50	\$111.50	\$218.00		
8	\$163.00	\$322.00	\$166.00	\$324.00		
10	\$224.00	\$444.00	\$231.00	\$459.00		
12	\$261.00	\$519.00	\$270.00	\$536.00		

<u>Commodity Charge</u>		<u>Wholesale</u>		<u>Charge / 100 Cubic Feet</u>
<u>Inside City</u>	<u>Outside City</u>	<u>Unrestricted</u>	<u>Restricted</u>	
<u>Cubic</u>	<u>Charge / 100</u>	<u>Cubic</u>	<u>Charge / 100</u>	
<u>Feet</u>	<u>Cubic Feet</u>	<u>Feet</u>	<u>Cubic Feet</u>	
First 600	\$2.39	First 600	\$2.52	\$1.59
Next 4,400	\$2.65	Next 4,000	\$2.80	\$1.54
Next 995,000	\$2.25	Over 5,000	\$2.25	
Over 1,000,000	\$1.61			
		1 st Repump		\$0.13
		2 nd Repump		\$0.23

The City is not required to raise rates annually. The City makes no representation as to whether either a rate increase will be approved in any future Fiscal Years, or, if a rate increase is approved in any Fiscal Year, as to the nature and extent of any such rate increase. Nevertheless, the City's debt service requirement described under the Bond Ordinance "Rate Covenant" will be maintained.

WATER SYSTEM FINANCIAL INFORMATION AND COVERAGE STATEMENT

Operating Revenues and Expenses

About 83% of water sales revenues are derived from charges to retail customers. The remaining water revenues are from water provided on a wholesale basis under interjurisdictional agreements with 32 surrounding cities and water districts. The total number of customers in Fiscal Year 2009 is approximately 153,000.

Operation and maintenance expenses include the cost of labor, materials, supplies and contractual services, and represent the normal everyday cost of System operation. Operation and maintenance expenses are assumed to increase slightly during Fiscal Years 2010 through 2014. The projected increases in operation and maintenance expenses take into consideration growth in the Water System and price inflation as well as the offsetting effects of staff reductions and improvements in cost efficiencies.

Accounting, Budgeting and Auditing Procedures

The Water Services Department is an enterprise activity whose financial records are audited annually and reported in conformity with generally accepted accounting principles for governmentally-owned water utilities. The Department operates the Water System on the accrual basis system of accounting, where revenues are recorded when earned and expenses are recorded when incurred.

An annual budget of estimated receipts and disbursements for the coming Fiscal Year is prepared by the Director of Water Services under the direction of the City Manager and is presented to the City Council in March for approval after a public hearing. The Fiscal Year of the Water System is May 1 through April 30. The budget lists estimated receipts by funds and sources and estimated disbursements by funds and purposes and includes a statement of the rates required to raise each amount shown on the budget as coming from Water System revenues.

The financial records of the Water System are audited annually by a firm of independent certified public accountants in accordance with generally accepted auditing standards. For the years 2005-2008, the annual audit was performed by KPMG, LLP, Kansas City, Missouri. In 2009 BKD, LLP certified public accountants audited the City as a whole and did not give a separate opinion for Water's financial records. Copies of the audit reports of the past five years are on file in the City Clerk's office and are available for review.

Financial Statements

The City maintains its financial records on the basis of a Fiscal Year ending April 30. Such financial statements have been examined by BKD, LLP, Kansas City, Missouri, independent certified public accountants. The City did not ask BKD, LLP, to perform any additional work or any post-audit procedures more recently than the April 30, 2009 audit with respect thereto.

The tables on the following pages provide the Water Fund's balance sheets and income statements for the Fiscal Years ended April 30, 2005 through 2009.

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CITY OF KANSAS CITY, MISSOURI WATER FUND

Statement of Net Assets

Assets	2005	2006	2007	2008	2009
Current assets:					
Cash and cash equivalents	\$18,157,920	\$17,377,865	\$617,474	\$863,408	\$335,592
Investments			1,857,854	3,242,332	1,575,296
Accounts receivable, net	11,115,317	10,760,483	11,471,065	12,585,884	13,247,479
Accrued interest receivable	247,006	233,874	278,680	150,231	52,264
Current portion of notes receivable		179,313	275,319	291,259	316,964
Inventories	2,637,575	2,480,838	2,051,419	2,153,974	2,316,165
Prepaid expenses	400,636	375,325	418,801	507,026	484,671
Due from other funds	1,500,036	1,037,389	197,943	937,498	229,693
Total unrestricted current assets	34,058,490	32,445,087	17,168,555	20,731,612	18,558,124
Restricted assets:					
Cash and cash equivalents	32,664,338	49,332,235	1,063,517	2,840,402	2,505,295
Investments			6,546,624	4,733,889	26,635,088
Accrued interest receivable	388,422	703,449	502,637	564,074	342,096
Total restricted current assets	33,052,760	50,035,684	8,112,778	8,138,365	29,482,479
Investments			14,407,650	11,137,898	11,613,249
Restricted assets-investments			23,167,502	50,045,238	63,600,103
Special assessments receivable, net of allowance	397,593	281,204	183,220	73,131	48,078
Notes Receivable	5,168,543	4,835,404	6,953,351	6,801,602	6,716,220
Debt issuance costs, net	1,484,235	1,828,353	1,653,980	1,505,353	4,419,139
Capital assets, net	470,422,570	492,101,537	521,530,227	551,989,770	583,667,582
Total assets	\$544,584,191	\$581,527,269	\$593,177,263	\$650,422,969	\$718,104,974
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$1,847,524	\$3,014,240	\$2,150,289	\$4,615,634	4,517,788
Water main extensions -- City Share	132,337	132,337			
Current portion of compensated absences	2,524,022	128,979	136,017	152,954	718,408
Accrued payroll and related expenses	1,232,667	1,200,539	1,202,914	1,645,411	2,575,795
Contracts and retainage payable	306,921	264,630	220,591	196,187	303,905
Other liabilities	477,655	609,815	650,037	114,064	450,597
Current portion of due to other funds	3,696,851	2,059,264	166,213	541,304	579,670
Current portion of claims liability			1,216,108	1,448,311	1,326,764
Total current liabilities	10,217,977	7,409,804	5,742,169	8,713,865	10,472,927
Liabilities payable from restricted assets:					
Accrued interest and fiscal agent fees	3,055,200	3,662,058	3,135,725	2,900,730	1,938,198
Current portion of revenue bonds payable	10,600,000	11,140,000	11,945,000	12,728,329	11,215,513
Contracts and retainage payable	211,468	578,166	1,214,775	719,478	647,548
Customer deposits	1,127,308	1,284,248	1,079,877	1,169,518	1,003,047
Total liabilities payable from restricted assets	14,993,976	16,664,472	17,375,377	17,518,055	14,804,306
Total current liabilities	25,211,953	24,074,276	23,117,546	26,231,920	25,277,233
Claims liability			3,106,000	3,799,194	4,137,356
Compensated absences		2,369,000	2,511,547	2,795,992	2,329,019
Due to other funds		3,019,953	0	0	
Pension liability		1,587,785	1,782,720	1,057,828	961,323
Postretirement liability				1,105,266	2,570,350
Revenue bonds payable	137,644,230	157,366,409	145,675,345	179,008,953	235,143,235
Total liabilities	162,856,183	188,417,426	176,193,158	213,999,153	270,418,515
Net assets:					
Invested in capital assets, net of related debt	347,904,690	365,924,456	386,436,712	406,638,846	428,340,316
Restricted	4,416,669	3,812,937	4,977,053	8,512,872	8,763,936
Unrestricted	29,406,649	23,372,453	25,570,340	21,272,098	10,582,206
Total net assets	381,728,008	393,109,846	416,984,105	436,423,816	447,686,458
Total liabilities and net assets	\$544,584,191	\$581,527,269	\$593,177,263	\$650,422,969	\$718,104,973

*Highlighted sub-total was corrected from previous 12/7/09 report.

CITY OF KANSAS CITY, MISSOURI WATER FUND
Statement of Revenues, Expenses and Changes in Fund Net Assets

	2005	2006	2007	2008	2009
Operating revenues:					
Water sales	\$61,753,054	\$66,984,040	\$74,389,304	\$78,251,144	\$79,369,329
Other water revenue	1,420,998	1,200,295	1,408,475	1,802,063	2,401,532
Income from jobbing and contract work and miscellaneous revenues	5,293,959	3,674,677	3,713,807	3,986,649	4,360,006
Total operating revenues	68,468,011	71,859,012	79,511,586	84,039,856	86,130,867
Operating expenses:					
Power and pumping	4,015,062	4,574,845	4,851,937	5,417,959	5,065,124
General and electrical maintenance	2,215,067	2,809,195	2,871,968	3,019,538	2,282,020
Purification	9,626,152	9,894,561	10,083,236	10,971,583	11,078,707
Laboratory services	2,215,754	2,384,187	2,520,654	2,605,167	2,960,532
Transmission and distribution	6,949,935	8,535,138	10,362,196	10,242,782	13,925,182
Customer service	6,318,971	6,759,421	6,433,359	7,574,259	7,156,669
Mechanical maintenance	4,416,018	1,592,726	2,788,477	2,916,693	3,122,413
Customer accounting and collection	3,648,911	4,132,276	3,850,764	4,331,504	4,520,029
Administrative and general	11,108,115	11,939,536	12,815,929	14,278,131	13,423,079
Depreciation and amortization	10,371,231	10,502,247	9,961,277	10,181,650	10,270,730
Total operating expenses	\$60,885,216	\$63,124,132	\$66,539,797	\$71,539,266	\$73,804,485
Operating income	\$7,582,795	\$8,734,880	\$12,971,789	\$12,500,590	\$12,326,381
Nonoperating revenues (expenses):					
Interest on investments	\$1,808,514	\$2,149,540	\$3,243,943	\$2,949,674	\$1,564,504
Grant revenue					
Interest expense and fiscal agent fees	(6,236,663)	(6,354,077)	(5,863,253)	(5,998,133)	(6,375,875)
Gain on disposal of fixed assets	33,428	(16,152)	(18,732)	(27,291)	225,141
Total nonoperating revenues (expenses)	(4,394,721)	(4,220,689)	(2,638,042)	(3,075,750)	(4,586,230)
Net income before capital contributions	3,188,074	4,514,191	10,333,747	9,424,840	7,740,151
Capital contributions	10,661,875	6,867,647	13,540,512	10,014,871	3,522,492
Change in net assets	13,849,949	11,381,838	23,874,259	19,439,711	11,262,644
Total net assets - beginning of the year	367,878,059	381,728,008	393,109,846	416,984,105	436,423,816
Total net assets - end of the year	\$381,728,008	\$393,109,846	\$416,984,105	\$436,423,816	\$447,686,460

CITY OF KANSAS CITY, MISSOURI
WATER FUND

Historical Debt Service Coverage Calculation

	<u>For Fiscal Year Ended April 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total revenues	\$ 68,468,011	\$ 71,859,012	\$ 79,511,586	\$ 84,039,856	\$ 86,130,867
Less: Total operating expenses	60,885,216	63,124,132	66,539,797	71,539,266	73,804,485
Plus: depreciation and amortization expenses	10,371,231	10,502,247	9,961,277	10,181,650	10,270,730
Add back in Administrative Fees					
Plus: principal portion of contract payments received from other governmental units	133,984	153,240	296,555	211,940	496,006
Plus: nonoperating revenues (interest income)	<u>1,808,514</u>	<u>2,149,540</u>	<u>3,243,943</u>	<u>2,949,674</u>	<u>1,564,504</u>
Net Revenues Available for Debt Service	\$ 19,896,524	\$ 21,539,907	\$ 26,473,564	\$ 25,843,854	\$ 24,657,622
Current Year Debt Service	\$ 17,272,682	\$ 17,947,910	\$ 19,564,810	\$ 19,906,343	\$ 21,188,579
Debt Service Coverage	1.15x	1.20x	1.35x	1.30x	1.16x